



FHA Repair Requirements & 4150.2 Revised December 19, 2005 Mortgagee Letter 2005-48

With the new Fannie Mae URAR 1004 required and the HUD VC Sheet now retired, FHA recently relaxed many of their inspection requirements for existing properties by updating HUD Handbook 4150.2.

REMEMBER, RURAL DEVELOPMENT INSPECTION REQUIREMENTS FOR GUARANTEED LOANS ARE NO MORE RESTRICTIVE THAN FHA. Please review these new changes and do not make any of these items a condition for repair on the conditional commitment. RD Instruction 1980-D, 1980.341(b) references HUD's requirements so our guidance is updated as well.

FHA and Rural Development no longer require repairs for minor cosmetic deficiencies; for example:

- Missing handrails
- Cracked or damaged exit doors that are otherwise operable
- Cracked window glass
- Defective paint surfaces in homes constructed post-1978
- Minor plumbing leaks (such as leaky faucets)
- Defective floor finish or covering worn through the finish, or badly soiled
- Evidence of previous (non-active) Wood Destroying Insect/Organism damage where there is no evidence of unrepaired structural damage
- Rotten or worn out counter tops
- Damaged plaster, sheet rock, or other wall and ceiling materials in homes constructed post- 1978
- Poor workmanship
- Trip hazards (cracked or partially heaving sidewalks, poorly installed carpeting)
- Crawl space with debris and trash
- Lack of an all weather driveway surface

FHA and Rural Development inspection policies:

- **Wood destroying insects/organisms:** Purchase contracts typically require the seller in Illinois to provide this inspection and repair (1980-D has no additional termite requirements for existing dwellings).
- **Septic:** Both RD and FHA will require a third party test only if the appraiser or inspector orders it, or state/county/city regulations mandate it.
- **Flat or unobservable roof:** No longer required. Appraiser will note any possible problems from the interior of the property (evidence of leaks, waterspots, etc.)
- **Well:** Rural Development requires all private wells and individual water supplies to be tested per 1980.313(c) and 1980.341(c). FHA will only require this in some cases...this is one difference between RD and FHA.
- **Thermal:** Rural Development requires that dwellings meet thermal standards or grants a documented waiver request per 1980.313(f). We expect this requirement to be eliminated when 7 CFR 3555 is published as a final rule since FHA has no thermal standard....this is another difference between RD and FHA.

Conditions that will continue to require automatic inspections include but are not limited to:

- Standing water against the foundation and/or excessively damp basements
- Hazardous materials on the site or within the improvements
- Faulty or defective mechanical systems (electrical, plumbing, or heating)
- Evidence of possible structural failure (e.g. settlement or bulging foundation wall)

AN 4114 (1980-D) dated October 21, 2005 is now being reissued to address these changes. The lender's appraiser or home inspector must be familiar with HUD Handbook 4150.2 which is the basis for our compliance with repair requirements.

Questions? Contact Kristina Zehr, SFH Specialist at 217-403-6224



NEW APPRAISAL GUIDANCE

There have been significant changes to the recently issued guidance regarding acceptable appraisal formats for Guaranteed Rural Development loans.

Rural Development's required inspection has now been incorporated into the URAR (1004), AND can be performed by any third party that the lender deems qualified.

A lender may deem someone qualified that is a:

- **FHA roster appraiser or**
- **Certified General Real Estate Appraiser (153) familiar with HUD Handbook 4150.2 or**
- **Certified Residential Real Estate Appraiser (156) familiar with HUD Handbook 4150.2**

Lenders need to have non-FHA roster appraisers note that the dwelling meets HUD Handbook 4150.2 to document compliance with this requirement. One suggested area for this comment would be on page 3 of the 1004 in the "Additional Comments" section.

Cost Approach/Site Value Update

The cost approach is required by 1980.334(b)(1) **only** when the dwelling is less than one year old **or** the appraiser believes that the cost approach is needed as an indicator of value.

In all other cases, only the site value is required to be documented so that a modest site determination can be made as required by 1980.313(e).

Estimated Remaining Economic Life is not required by Rural Development when the cost approach is not completed.